TAX EXPENDITURES

Montana Department of
REVENUE

Introduction To Tax Expenditures

This introductory section discusses the tax expenditure concept, the purpose of tax expenditure reporting, methods used in measuring tax expenditures, caveats in the use of tax expenditure estimates, and the history of tax expenditure reporting.

House Bill 387, passed by the Fiftieth Legislature (1987), amended MCA 15-1-205 by suggesting that the Department of Revenue supplement its Biennial Report with estimates of revenue losses attributed to certain deductions, exclusions, credits, and other preferential tax treatment of income or property.

The Tax Expenditure Concept

Tax expenditures are defined as provisions of the tax code that provide for special exclusions, exemptions, deductions, credits, deferrals, or preferential tax rates that result in foregone revenue.

The purpose of tax expenditures is to provide financial assistance to certain groups of taxpayers, or to provide an economic incentive that encourages specific taxpayer behavior. One example of a tax expenditure designed to provide financial assistance is the additional personal exemption allowed the blind and/or elderly. On the other hand, the deduction allowed homeowners for mortgage interest may be viewed as an inducement to encourage home ownership. In both cases, the same objectives could be met through direct government spending programs that subsidize certain individuals on the basis of specific characteristics or behavior.

Generally, state tax expenditure reports do not include provisions of tax law that lie beyond the state’s legal jurisdiction. For example, federal statutes and court rulings prohibit states from taxing certain railroad retirement benefits, and income earned by Indians on reservations. Tax law provisions of this nature are not reported here.

At the state level, tax expenditures may be “passive” or “non-passive” in nature. Passive tax expenditures occur when a state ties its tax code to the federal tax code in a manner that allows for the automatic incorporation of federal changes in state law.

For example, for state income tax purposes the starting point for determining Montana taxable income is federal adjusted gross income (FAGI). By starting with FAGI, Montana automatically incorporates the exclusions (e.g., employee fringe benefits) and deductions (e.g., IRAs) used in arriving at FAGI. These exclusions and deductions constitute passive tax expenditures at the state level. For informational purposes, Appendix B provides an estimate of the state tax expenditure for these items.

Tax expenditures arise as a consequence of deviations from the “normal” tax structure. There is no general consensus regarding what constitutes a normal income tax structure. However, there are a few tax provisions that are generally agreed upon to be components of the normal tax structure, and consequently are not considered tax expenditures here as well. These items include:

1. the standard deduction,
2. the personal exemption allowed each taxpayer and each dependent,
3. the progressive rate structure based on ability to pay, and
4. the deduction for costs incurred in producing income.

Other provisions which remain the subjects of vigorous debate, but which nevertheless are considered by most to be components of the normal tax structure, include:

1. unrealized appreciation in asset values,
2. imputed income from homes and other assets, and
3. indexing the tax structure for inflation.

In Montana, two-earner married households are allowed the option of filing separate tax returns without having to use a separate tax table for this form of filing. Given the relatively few states that still allow this option, this is now considered to be a tax expenditure item for Montana.

In addition to the rate table advantage, married couples who file separately may allocate certain items of income in a manner advantageous to reducing their tax liability.

The following table shows the estimated revenue loss attributable to this expenditure item for tax years 1996 through 2001, and the projected tax expenditure for fiscal years 2004 and 2005

Married Filing Separately Tax Expenditure

Year	Expenditure
Tax Year 1996 Actual	$ 42,000,000
Tax Year 1997 Actual	$ 43,089,000
Tax Year 1998 Actual	$ 47,451,000
Tax Year 1999 Actual	$ 51,830,000
Tax Year 2000 Actual	$ 58,752,000
Tax Year 2001 Actual	$ 53,121,000
Tax Year 2002 Actual	$ 54,859,000
Tax Year 2003 Actual	$ 57,561,000
Tax Year 2006 Projected	**$ 59,074,000**
Tax Year 2007 Projected	**$ 61,436,000**

The Purpose of Tax Expenditure Reporting

Once every two years the Montana Legislature convenes in regular session to fulfill its responsibilities in the functioning of state government. Basic responsibilities include the review of past budgets associated with alternative government spending programs, a determination of the appropriateness of continuing these programs, the budgeting of program expenditure levels for coming years, and the appropriation of funds needed to finance continued and additional programs.

In this review process, most state legislatures (Montana's included) often overlook a major component of government finance. This component consists of the reductions in state revenue attributable to deductions, exclusions, credits, and other preferential treatment in the tax code. In effect, the specific deductions, exclusions, credits, and other preferential items currently in tax codes represent indirect government spending programs in the sense that these same preferences result in foregone revenue that otherwise would have been available for direct expenditure programs. Hence, these items are commonly referred to as "tax expenditures."

The objective of tax expenditure reporting is to provide information useful to the Governor and the Legislature for developing tax policy. Clear information on the costs of tax deductions and exemptions is as important as accurate data on costs of government services. Every effort was made to produce as

comprehensive, detailed, and accurate a report as possible. The report encompasses changes in tax law through the Fifty-Eighth Montana Legislature (including special sessions).

Measuring Tax Expenditures

Two methods were used to estimate the value of tax expenditures in this report. The first method, used to estimate passive (federal) provisions of the individual income and corporation license tax, allocates a portion of national estimates to Montana. Every year the federal Joint Committee on Taxation publishes its estimates of federal individual and corporate income tax expenditures for selected fiscal years. These estimates can then be allocated to states on the basis of relative tax base and tax rates at the national and state level.
Although this method is used by most states for deriving at least some of their tax expenditure estimates, it is also recognized as being a relatively crude estimating technique. For the individual income tax, it assumes that Montana's demographic characteristics (e.g., age and income distributions) and mix of industries are the same as those of the nation, and that Montana's consumption and expenditure patterns parallel those nationally. Obviously, this is an oversimplification. This simple approach may result in an understatement of tax expenditures for industries like agriculture and mining, which are more important to Montana's economy than to the U.S. economy.

The second method uses actual data available at the state level together with computer simulation modeling to produce much more reliable estimates of the impacts of certain tax expenditure items. This method was used to derive the estimates for Montana-specific reductions to income, itemized deductions, and credits for the individual income tax; credits for the corporation license tax; and all expenditure items reported for natural resources and property tax.

Using Tax Expenditures - Some Caveats

In most cases, tax expenditure estimates should be viewed as a measure of the amount of relief, assistance, or subsidy currently being provided through tax codes, and not necessarily as the amount of revenue that would be gained by repealing expenditure provisions of tax law. There are several reasons for this.

First, estimates of tax expenditures are made in the absence of any assumptions regarding policy responses. For example, employer contributions for medical insurance premiums and medical care are currently excluded from the employee's reported income. Some may view the tax expenditure associated with this item as a measure of the revenue that would be gained by requiring employees to include this contribution in their incomes. However, in keeping with current policy, employees who itemize deductions might be allowed to include all or part of this contribution in their personal deduction for medical expense if this exclusion were repealed. A policy response of this nature would reduce the tax expenditure associated with this item considerably.

Second, tax expenditures are not additive. In other words, the revenue effect of rescinding all tax expenditure items cannot be estimated simply by adding the tax expenditures associated with each individual tax expenditure item. This is because many of the tax expenditure items are interrelated, and a simple sum of tax expenditures estimated in isolation does not take into account these interaction effects. Furthermore, because each tax expenditure is measured in isolation, a simple summing of tax

expenditures will bias the total effect downwards in the presence of a progressive tax rate schedule, such as the one used in Montana. If all tax expenditures were eliminated simultaneously, taxable incomes would rise much higher than if a single expenditure provision were eliminated, subjecting taxable incomes to higher marginal tax rates.

Third, tax expenditure estimates do not take into consideration taxpayer behavioral responses. For example, it is quite conceivable that eliminating the deduction for charitable contributions would substantially reduce the number and size of these contributions. Taxpayers may funnel these funds into other tax saving devices, thereby reducing the revenue gain estimated in the absence of any behavioral response.

Given these considerations, users should view tax expenditure estimates more as a measure of the amount of relief currently being provided, rather than as a measure of the revenue that could be generated from repealing the associated tax provision.

Tax Expenditure Reporting

Tax expenditure reporting and tax expenditure budgets are a relatively recent phenomenon. The earliest record of reporting government subsidies administered through the tax code is in the Federal Republic of Germany, in 1959.

In the U.S., the pioneering work of Stanley Surrey lead to the first federal tax expenditure budget, prepared by the Department of Treasury, in 1967. In 1971, California became the first state to adopt legislation requiring tax expenditure reports. California was followed by Wisconsin in 1973, and by Maryland and North Carolina in 1975. Today, at least half the states regularly publish comprehensive or partial tax expenditure reports.

In almost all cases, tax expenditure reports and budgets are prepared in response to a statutory requirement. Usually, the statutes spell out the type of information the report is to contain, and the time period to be covered.

HB387, passed during the 1987 regular session, provides that the Department of Revenue’s Biennial Report *may* include specified information relating to tax expenditures. The bill did not contemplate a specific time period for these expenditures. However, the bill did specify that the report may include tax expenditures attributable to:

1. personal income and corporation license tax exemptions,
2. property tax exemptions for which application to the department or its agent is necessary,
3. deferrals of income,
4. credits allowed against Montana personal income tax or Montana corporation license tax,
5. deductions of income, and
6. any other identifiable preferential treatment of income or property.

In addition, the department was directed to provide:

1. distributions of tax expenditures across age and income brackets, whenever available,

2. any known purpose for the preferential treatment, and an outline of available data necessary to determine the effectiveness of the preference, and
3. similar information from other states, if available.

Concluding Remarks

Although a relatively recent phenomenon, tax expenditure reporting and tax expenditure budgets are becoming more and more prevalent at the state level. As states adopt tax expenditure reporting, legislators and administrators would be well advised to keep the limitations of tax expenditure reports in perspective. Tax expenditure estimates are not estimates of the amount of revenue that would be generated by repealing the associated tax provision, but rather estimates of the amount of relief currently being provided through the tax code. These estimates are subject to several methodological ambiguities, and in some cases severe data limitations.

Tax expenditure reports and budgets are primarily designed to be informational tools. Nothing in these reports is intended to convey a judgment regarding the propriety of various tax provisions. Tax expenditure reporting may encounter widespread resistance if opponents view the process as a means of selecting provisions for repeal in order to enhance revenues. Nevertheless, when used appropriately, the tax expenditure report or budget can be a valuable tool in providing lawmakers with added insight into the extent and distribution of governmental assistance.

Individual Income Tax Expenditures

The starting point for calculating Montana individual income tax is federal adjusted gross income (FAGI). Montana-specific additions and reductions to income determine the taxpayer's Montana adjusted gross income (MAGI). Either itemized or standard deductions and allowable taxpayer exemptions are subtracted from MAGI to arrive at the tax base, Montana taxable income (MTI).

A single tax table used by all filers is applied to taxable income to arrive at tax before credits. In applicable years this amount is adjusted for any surtax in effect and any tax on lump sum distributions that the taxpayer may have. This amount is then reduced by any income tax credits the taxpayer may have, to arrive at tax after credits. The income tax base, and net tax liability may be summarized as follows:

Summary of Individual Income Tax Calculation

Start	Income from all sources
Less:	Federal exclusions, and federal deductions
Equals:	Federal Adjusted Gross Income (FAGI)
Plus:	Montana additions
Less:	Montana reductions
Equals:	Montana Adjusted Gross Income (MAGI)
Less:	Deductions (itemized or standard), and exemptions
Equals:	Montana Taxable Income (MTI)
Times:	Tax table
Plus:	Surtax (applicable yrs), and tax on lump sum distributions
Equals:	Tax Before Credits
Less:	Credits
Equals:	Tax After Credits

When computing tax liability, all filers use the same tax table. Montana is one of a few states where married couples may choose to file separate returns if both have income in the same year. The 2002 tax table is shown below:

Tax Year 2004 Individual Income Tax Rate Table

If Taxable Income is:

Over	But Not Over	Then Tax Liability is:			
$ -	$ 2,300	2%	of taxable income	less	$ -
$ 2,300	$ 4,600	3%	of taxable income	less	$ 23
$ 4,600	$ 9,200	4%	of taxable income	less	$ 69
$ 9,200	$ 13,800	5%	of taxable income	less	$ 161
$ 13,800	$ 18,400	6%	of taxable income	less	$ 299
$ 18,400	$ 22,900	7%	of taxable income	less	$ 483
$ 22,900	$ 32,100	8%	of taxable income	less	$ 712
$ 32,100	$ 45,900	9%	of taxable income	less	$ 1,033
$ 45,900	$ 80,300	10%	of taxable income	less	$ 1,492
$ 80,300		11%	of taxable income	less	$ 2,295

Indexing

Montana has provided for full indexation of its income tax since 1981. The effect of indexing has been to reduce both tax liability and tax expenditure amounts. Indexing is considered to be an integral part of the normal tax structure, and hence, is not considered to be a tax expenditure.

Sources of Tax Expenditures

There are four sources of tax expenditures in Montana's individual income tax.

First, because Montana ties to the definition of federal adjusted gross income, all of the federal exclusions and deductions included in FAGI are also included in Montana adjusted gross income.

Second, Montana statutes provide for specific exclusions of certain types of income not provided for at the federal level.

The **third** source of tax expenditures includes the deductions for those taxpayers who file itemized returns. Most of these deductions are also tied directly to federal statutes. However, Montana also allows a deduction for federal income taxes paid during the tax year, a deduction for child care expenses incurred by certain families, a deduction for long-term care insurance premiums, and a deduction for medical insurance premiums.

The **fourth** source of tax expenditures includes Montana-specific tax credits.

The tax expenditure data published in this report is divided into two major groups: Montana-specific tax expenditures, and federal (passive) tax expenditures. Montana-specific tax expenditures are discussed in the following sections, while the federal (passive) tax expenditures are listed in Appendix B.

Montana Exclusions/Exemptions

The following exclusions and exemptions are above and beyond federal exclusions/exemptions. They are specific to Montana and were enacted by various state legislatures.

Additional Exemptions for the 65+ Age Group (and for certain physically challenged persons) *MCA 15-30-112 and 15-30-114*

Taxpayers and their spouses are both allowed additional exemptions if 65 years of age and over. Certain visually impaired taxpayers and their spouses are also granted additional exemptions. In addition, certain disabled dependent children are eligible for an extra exemption. This provides financial assistance to the age 65 and over and physically challenged groups.

Exempt Retirement Income *MCA 15-30-111 (2)*

Taxpayers are allowed to exclude up to $3,600 in pension and annuity income. For filers with federal adjusted gross income greater than $30,000, the $3,600 exclusion is reduced by $2 for every $1 of federal adjusted gross income in excess of $30,000. The exclusion is zero for taxpayers with federal adjusted gross income over $31,800. This exemption provides economic relief to retirees.

Exempt Unemployment Compensation *MCA 15-30-101 (7)*

Unemployment compensation is excluded from gross income. The purpose of this exclusion is to provide additional economic assistance to unemployed persons.

Elderly Interest Exclusion for 65+ Age Group *MCA 15-30-111 (2)*

Taxpayers age 65 or older are allowed an exclusion of interest income up to $800 if filing a single, married-separate, or head-of-household return; and up to $1,600 if filing a joint return. This tax provision provides economic relief to taxpayers age 65 and over.

Medical Savings Account *MCA 15-61-202*

This account can be administered by an Account Administrator that is registered with the Department of Revenue or self administered by the taxpayer. The maximum deduction allowed per taxpayer from Montana adjusted gross income is $3,000 plus interest the account accumulates. Eligible medical expenses cannot be deducted elsewhere on the tax form.

Family Education Savings Account *MCA 15-62-204*

Taxpayers may contribute up to $3,000 per year into an individual trust or savings account to pay qualified higher education expenses for a designated beneficiary. Participants must make contributions in cash and complete an application prescribed by the Montana Board of Regents. Qualified withdrawals may be made only by check payable jointly to the designated beneficiary and a higher education institution. A penalty of 10% is imposed on any non-qualified withdrawal.

First-Time Homebuyers Savings Accounts *MCA 15-63-202*

Qualifying individuals may exclude from income up to $3,000 ($6,000 if filing jointly) contributed to a first-time homebuyers savings account. The account must have been opened for the first time during the tax year for which the deduction was claimed. Interest earned on the account is also excludable from income.

Health Care Professional Loan Payment Exclusion *MCA 15-30-111*

Qualifying health care professionals may exclude from adjusted gross income up to $5,000 for loan payments made during the year on their behalf by qualifying student loan repayment programs.

Farm Risk Management Account *MCA 15-30-601*

Individual or family farm corporations may exclude from adjusted gross income deposits into a farm and ranch risk management account. The exclusion is limited to the lesser of 20% of net income attributable to agricultural business included in federal adjusted gross income, or $20,000 per year.

Other Montana Exclusions *MCA 15-30-111 and 80-12-211*

Because the following items are all reported on a single line on the tax form, it is not possible to disaggregate the separate tax expenditure associated with each item. Therefore, the total tax expenditure of all of the below items taken together is reported. Montana and federal statutes provide for the following additional exclusions from income:

Capital Gains Exclusion *MCA 15-30-110*

The Tax Reform Act of 1986 eliminated the 60% exclusion for long-term capital gains, and required 100% of capital gains to be reported as ordinary income. Taxpayers are allowed to exclude from adjusted gross income 40% of the gain from the sale or exchange of capital assets, stemming from agreements entered into before January 1, 1987. The 40% Montana exclusion provides an inflationary hedge for Montana investors who entered into installment sales agreements prior to January 1, 1987. Over time this tax expenditure will erode to zero.

Health Insurance Paid by an S-Corporation

Shareholders may deduct health insurance premiums paid on their behalf by the S corporation, to the extent the cost is included in the shareholder’s federal adjusted gross income.

Child’s Income Exclusion

Taxpayers may exclude income reported on federal Form 8814 (Parents’ Election to Report Child’s Interest and Dividends). Children must file a Montana return if they otherwise meet the income filing requirements.

Excluded Tip Income

Income from tips received for services provided in licensed food, beverage, or lodging businesses are excludable. This exclusion gives financial relief to food, beverage, and lodging service workers, as well as provides ease of tax administration.

State Income Tax Refunds

State individual income tax refunds reported as income for federal purposes may be excluded from income for state tax purposes.

Disability Income Exclusion

Disability payments of up to $5,200 per year are excludable. This exclusion provides financial assistance to persons receiving disability income.

Deduction for Recyclable Materials

Taxpayers may take an additional deduction equal to 10% of the business expense related to the purchase of recycled products used in Montana, if the recycled products contain at least 90% reclaimed material.

Wages Covered by Federal Targeted Jobs Credit

For federal tax purposes, the business deduction for wages and salaries paid to employees must be reduced by any federal targeted jobs credit claimed in relation to those wages. Taxpayers may exclude the amount claimed as a credit for federal purposes to ensure full deduction of these expenses.

Land Sales to Beginning Farmers

Up to $50,000 in income or capital gains from the sale of land consisting of more than 80 acres to a beginning farmer at 9% or less interest on a long-term contract is excludable. This provides financial assistance to farmers/ranchers, and is an incentive for land to remain in an agricultural use.

Passive Loss Carryovers

Under certain circumstances, taxpayers are allowed to deduct prior year disallowed passive activity losses.

Indian Reservation Income

Income earned by an enrolled member of an American Indian tribe while living and working on a reservation is excludable. This gives financial relief to tribal members, living and working on a reservation.

Exempt Military Pay

Active duty pay for a member of the regular armed forces is exempt. This exemption grants financial relief to members of the armed forces on active duty.

Social Security Payments

Certain taxpayers may be allowed a deduction for social security income, if the portion of social security taxable to Montana is less than the federal taxable amount.

Allocation of Income to Proprietor’s Spouse

Income may be allocated to a spouse who regularly performs substantial personal services in the operation of a business for which he/she is not paid a salary or wage. The allocation must be reported as income on the spouse’s return.

Net Operating Losses

Taxpayers may exclude from income certain net operating loss carrybacks for tax years beginning after December 31, 1998. These carrybacks are made through an irrevocable election not to carry forward the NOL.

Individual Income Tax Expenditures Montana Exclusions			
Montana Exemption / Exclusion	FY2006	FY2007	Biennium
Additional Exemptions for Age 65+ and Certain Physically Challenged Persons	$5,934,000	$5,940,000	$11,874,000
Exempt Retirement Income	4,800,000	4,950,000	9,750,000
Exempt Unemployment Compensation	3,190,000	3,140,000	6,330,000
Interest Exclusions for Age 65+	1,290,000	1,340,000	2,630,000
Medical Savings Accounts	910,000	1,000,000	1,910,000
Family Education Savings Accounts	610,000	680,000	1,290,000
First-Time Homebuyers Savings Accounts	90,000	100,000	190,000
Health Care Professional Loan Payments	40,000	40,000	80,000
Farm and Ranch Risk Management Accounts	2,000	2,000	4,000
Other Reductions of Income	25,000,000	25,850,000	50,850,000
Total	**$41,866,000**	**$43,042,000**	**$84,908,000**

Individual Income Tax - Montana Itemized Deductions

Montana's itemized deductions are primarily passive in nature in that most are tied to allowable federal itemized deductions. However, itemized deductions for federal income taxes paid during the tax year, child and dependent care expenses, long-term care insurance premiums, and medical insurance premiums are Montana-specific deductions.

Home Mortgage Interest *MCA 15-30-121 (1)*

Qualified residence interest is deductible to the extent that it represents interest on "acquisition indebtedness" not in excess of $1,000,000; or "equity indebtedness" not in excess of $100,000. "Acquisition indebtedness" is debt incurred in acquiring, constructing, or improving the residence; "equity indebtedness" is any indebtedness, other than acquisition indebtedness, to the extent that total indebtedness does not exceed the fair market value of the residence. Qualified residence is the taxpayer's principle residence and/or a second residence selected by the taxpayer, for the tax year. Points paid on a home mortgage loan for the purchase or improvement of a principal residence also are deductible. The deduction for home mortgage provides an incentive for residential development and economic growth.

Federal Income Tax Paid *MCA 15-30-121 (2)*

Through tax year 2004, a deduction is allowed for the full amount of federal income tax actually paid during the tax year. Beginning with tax year 2005, taxpayers may deduct federal taxes up to $5,000 ($10,000 if married and filing a joint return). Taxpayers may claim this deduction even when filing short-form 2S.

Contributions *MCA 15-30-121 (1)*

Contributions to organizations that are religious, charitable, educational, scientific, or literary in purpose are deductible. Generally, the deduction for contributions is limited to 50% of an individual's adjusted gross income. This deduction acts to reduce the cost of making charitable contributions, thereby increasing the amount of these types of contributions.

Real and Personal Property Taxes *MCA 15-30-121 (1)*

A deduction is allowed for any taxes paid on real and personal property not associated with the taxpayer's business. Allowing a deduction for property taxes enhances the ability of local governments to raise revenues needed to fund local activities.

Medical Insurance Premium Expense *MCA 15-30-121 (1)*

Montana allows taxpayers to deduct allowable medical insurance premiums. The premiums must be paid by the taxpayer with after-tax dollars. The amounts deducted cannot include amounts deducted for self-employed health insurance premiums deducted in arriving at federal adjusted gross income, or long-term care insurance premiums deducted elsewhere. This deduction encourages insurance coverage and offers financial support to those taxpayers paying out-of-pocket insurance premiums.

Medical and Dental Expense *MCA 15-30-121 (1)*

Expenditures for specified medical expenses are deductible to the extent that they exceed 7.5% of the taxpayer's adjusted gross income. The deduction for medical expenses is provided on the grounds that these types of expenditures are largely involuntary, and may be burdensome and substantially reduce tax capacity. The deduction also provides financial relief to those individuals having no health insurance coverage.

Miscellaneous Deductions *MCA 15-30-121 (1)*

The Tax Reform Act of 1986 provided for two types of miscellaneous deductions. The first type, which includes non-reimbursed job related expenses and expenses associated with producing other income, is subject to a 2% of adjusted gross income floor. Other miscellaneous expenses are not subject to the floor. This deduction is allowed on the general understanding that costs associated with the production of income are appropriately deductible.

Motor Vehicle and Other Deductible Taxes *MCA 15-30-121 (1)*

A deduction is allowed for motor vehicle fees and taxes, and any other deductible taxes paid during the tax year. Allowing a deduction for motor vehicle taxes is consistent with allowing a deduction for other forms of personal property tax.

Deductible Investment Interest *MCA 15-30-121 (1)*

The deduction for investment interest was limited by the Tax Reform Act of 1986. Investment interest is deductible only to the extent of “net investment income”; however, interest that is disallowed due to this limitation may be carried over to subsequent years. Technically, the deduction for interest on investments represents an allowance for costs associated with acquiring specific assets. Failing to allow the deduction would result in an overstatement of net income. Practically speaking, the deduction provides an incentive for savings and investment.

Long-Term Care Insurance Premiums *MCA 15-30-121 (7)*

Insurance premiums paid for long-term care insurance are deductible in full. In order to qualify for the deduction, the benefits provided by the insurance policy must meet or exceed the minimum standards established by the Montana State Auditor’s Office, Insurance Commission Division. This deduction provides an incentive for taxpayers to purchase an alternative means of providing long-term care (e.g., nursing home care). Provision of long-term care through private insurance reduces the reliance on public (Medicaid) payments for these types of services, thereby reducing state obligations and expenditures.

Gambling Losses MCA 15-30-121 (3)

Taxpayers may deduct gambling loses suffered during the tax year, but only to the extent of gambling gains. Individuals not engaged in the gambling business deduct their gambling losses, again, only to the extent of gambling gains, under miscellaneous deductions not subject to the 2% of AGI floor.

Casualty and Theft Losses MCA 15-30-121 (1)

A taxpayer may deduct casualty and theft losses on personal property only to the extent that 1) the loss exceeds $100, and 2) all of the casualty or theft losses for the year exceed 10% of adjusted gross income for the year. With regard to theft losses, the loss amount is equal to the lesser of the property’s fair market value or adjusted basis, reduced by any insurance or other compensation received or recoverable. Casualty and theft losses are viewed as “negative” income in the year of loss,; hence, they are allowed as a deduction. The validity of this deduction is sometimes called into question on the grounds that almost all such losses are covered by insurance.

Child/Dependent Care Expense MCA 15-30-121 (3)

This deduction is not provided at the federal level, but is provided specifically through state statutes. Subject to specific rules and limitations, taxpayers are allowed a deduction for employment-related expenses associated with child and/or dependent care. This deduction is intended to provide economic

relief to households where the expense of caring for dependents, necessary to allow gainful employment, is detrimentally burdensome.

Individual Income Tax Expenditures
Montana Itemized Deductions

Itemized Deduction	FY2006	FY2007	Biennium
Home Mortgage Interest	$58,680,000	$63,110,000	$121,790,000
Federal Income Tax Paid During the Year	34,740,000	41,120,000	75,860,000
Contributions	25,750,000	28,770,000	54,520,000
Property Taxes	18,090,000	18,720,000	36,810,000
Medical Insurance Premiums	10,900,000	11,460,000	22,360,000
Medical Expense	9,890,000	10,910,000	20,800,000
Miscellaneous Business Expenses	6,620,000	7,130,000	13,750,000
Motor Vehicle and Other Deductible Taxes	2,590,000	2,640,000	5,230,000
Deductible Investment Interest	1,590,000	1,550,000	3,140,000
Long-Term Care Insurance	840,000	900,000	1,740,000
Gambling Losses	280,000	280,000	560,000
Casualty and Theft Loss	130,000	140,000	270,000
Child and Dependent Care Expense	20,000	20,000	40,000
Total	**$170,120,000**	**$186,750,000**	**$356,870,000**

Individual Income Tax - Montana Credits

The following sections provide a brief description of each of the individual income tax credits in effect for tax year 2003, in Montana:

Other State / Foreign Tax Credit *MCA 15-30-124*
Residents whose Montana adjusted gross income includes income from a state or country which does not allow a credit for Montana income tax paid are allowed a credit for income tax paid the other state or country. This credit includes the resident's distributive share of any income tax imposed by and paid to another state or country by a partnership of which the resident is a partner. This prevents the multiple taxation of income by more than one state.

Elderly Homeowner/Renter Credit *MCA 15-30-171 through 15-30-179*
Residents age 62 or older who have lived in Montana for at least 9 months during the claim period, are eligible for a *refundable* property tax credit not to exceed $1,000. This credit is claimed on the individual income tax form. This provides financial assistance to homeowners/renters, age 62 and over, on fixed incomes.

Charitable Endowment (Planned Gift) Credit *MCA 15-30-165 through 167*
A taxpayer is allowed a *nonrefundable* tax credit equal to 30% (40% after July 1, 2003) of the present value of a "planned gift" made to any qualifying endowment. (Individual income taxpayers may not make outright gifts of cash for which this credit may be claimed.) The maximum credit that can be claimed for contributions from all sources in a year is $6,600 ($10,000 after July 1, 2003). The credit may not be carried forward or backward. The credit cannot be claimed if the taxpayer has included the full amount of the planned gift as a deduction elsewhere on the return. This credit provides an incentive to make charitable contributions to qualified endowments. *This credit terminates December 31, 2007.*

Energy Conservation Credit *MCA 15-32-109*
A resident taxpayer who makes a capital investment in a building for an energy conservation purpose is allowed a *nonrefundable* credit equal to 25% of the expenditure, up to a maximum credit of $500. Expenditures for capital investments in the physical attributes of a building or the installation of a water, heating, or cooling system qualify so long as the investment is for an energy conservation purpose. This provides an economic incentive for energy conservation expenditures and promotes conservation of fossil fuels.

Contractor's Gross Receipts Tax Credit *MCA 15-50-207*
Contractors are required to pay a license fee equal to 1% of the gross receipts from government contracts during the income year for which the license is issued. This additional fee is allowed as a credit against the contractor's individual income tax liability. This provision of tax law facilitates the taxation of prime and sub-contractors, while protecting the primary contractor from being taxed twice on the same earnings.

Alternative Energy System Credit *MCA 15-32-201*
A resident taxpayer who completes installation of an energy system using a "recognized nonfossil form of energy generation", or an energy system using a "low emission wood or biomass combustion device", in the taxpayer's principal dwelling after December 31, 2001 is entitled to a *nonrefundable* tax credit in an amount equal to the cost of the system, not to exceed $500. The credit may be carried over until completely used, or for four years, whichever comes first.

Rural Physician Tax Credit *MCA 15-30-188 through 15-30-191*
Physicians who commence practice in a rural area (a place without a hospital of at least 60 beds within a radius of 30 miles) are entitled to a *nonrefundable* credit of $5,000 per year, which may be claimed in four successive years beginning with the year in which the physician commences practice. The credit may not be carried forward or backward. To qualify for the credit, the physician must maintain a practice for at least 9 months of the taxable year in which the credit is claimed. If the physician ceases practice within 4 years following any taxable year in which the credit is granted, the physician is required to repay the state the amount of the credit claimed for that taxable year. The purpose of this credit is to encourage the location and relocation of physicians in medically-under-served rural areas.

College Contribution Credit *MCA 15-30-163*
Taxpayers may claim a *nonrefundable* credit equal to 10% of the amount of contributions to the general endowment funds of the Montana University System foundations, or to the general endowment fund of a Montana private college or its foundation. The maximum credit that can be claimed is $500. The credit may not be carried forward or backward. This credit provides an incentive to provide funding for Montana colleges and universities.

Recycling Credit *MCA 15-32-601 through 15-32-611*
Qualifying taxpayers may claim a credit for a portion of the cost of qualifying property used to collect or process “reclaimable material”, or to manufacture a product from reclaimed material. The credit may be claimed only in the year in which the property is purchased. The credit is equal to 25% of the cost on the first $250,000 invested; 15% of the cost on the next $250,000; and 5% on the next $500,000 invested. The purpose of this credit is to provide an incentive to accumulate and process reclaimable materials, reduce the burden on local landfills, and to enhance the quality of the environment. *This credit terminates December 31, 2005.*

Montana Capital Company Credit *MCA 90-8-202*
Taxpayers are allowed an income tax credit for investing in certified Montana capital companies. The credit is limited to 50% of the investment up to $150,000 per taxpayer for regular capital companies, and up to an additional $250,000 for investments in a qualified Montana small business investment capital company. This credit, which may be carried forward for up to 18 years, was available only to taxpayers who invested in a qualified Montana capital company within four years of July 1, 1987; or a qualified small business investment company within four years of July 1, 1991. This credit provides an incentive for the formation of venture and equity capital in Montana.

Mineral Exploration Credit *MCA 15-32-501 through 510*
Taxpayers are allowed a credit not to exceed 50% of the taxpayer’s liability for certified mineral exploration expenditures made to determine the existence, location, extent, or quality of a mineral or coal deposit. This credit provides an incentive to conduct mineral exploration activities in Montana.

Elderly Care Credit *MCA 15-30-128*
This *nonrefundable* credit is available to individuals for a portion of qualifying health expenses incurred in taking care of a family member 65 years of age and over, who is determined disabled by the Social

Security Administration, and has gross income of not more than $15,000 (unmarried members), $30,000 (married members). The credit, which is limited to $5,000 per qualifying family member up to a maximum of two members, is equal to 30% of qualifying expenses for taxpayers with up to $25,000 of income; and is phased down to 20% of qualifying expenses for taxpayers with incomes over $45,000. The dollar amount of this credit is reduced by $1 for each $1 in excess of $50,000 of adjusted gross income for the taxpayer receiving the credit. The credit may not be carried forward or backward. This credit provides financial assistance to those individuals incurring a financial burden due to caring for a disabled family member aged 65 and over, and reduces general fund Medicaid expenditures for nursing home care.

Investment Tax Credit *MCA 15-30-162*

In the past, Montana allowed an investment credit equal to 5% of the federal investment credit up to a maximum of $500 in a single tax year. The federal Tax Reform Act of 1986 repealed the federal investment credit. Consequently, the tax expenditures associated with this credit in future years will reflect only the carry forward amounts allowed under current law. Investment credit provisions are designed to stimulate investment and economic growth.

Installation of Geothermal Non-Fossil Energy Systems *MCA 15-32-115*

Resident taxpayers who complete installation of a geothermal system in the taxpayer’s principal dwelling are entitled to a tax credit for a portion of the installation costs of the system, not to exceed $1,500. Any excess tax credit may be carried forward for seven years. This credit provides an economic incentive for the installation of non-fossil energy systems, and promotes conservation of fossil fuels.

Alternative Energy Generation Credit *MCA 15-32-401 through 407*

Qualifying individuals, corporations, partnerships, or small business corporations that invest $5,000 or more in a “net metering system” located in Montana that generates energy by means of an alternative renewable energy source (including commercial wind generation systems) are entitled to a tax credit equal to 35% of the eligible costs. Eligible costs, including expenditures for generating equipment, safety devices, or transmission lines, must be reduced by the amount of any grants provided by the state or federal government for the system. Except for statutorily exempt investments on Indian reservations or state lands, if the investment receives federal wind-generation credits, the state credit must be reduced by the amount of any federal credit such that the effective credit does not exceed 60% of the eligible costs (this section repealed July 1, 2005). Generally, this credit may be carried forward for a period of seven years. This credit encourages the development of alternative energy industries in Montana, and promotes conservation of fossil fuels.

Alternative Fuels Tax Credit *MCA 15-30-164*

Qualifying taxpayers may receive a *nonrefundable* tax credit of up to 50% of the equipment and labor costs incurred to convert a motor vehicle to operate on alternative fuel (natural gas, liquefied natural gas, hydrogen, electricity, etc.). The credit may not exceed $500 for converting vehicles with gross vehicle weight of 10,000 pounds or less; and $1,000 for vehicles weighing over 10,000 pounds. The credit is allowed only in the year of conversion (no carryback or carryforward). The purpose of this credit is to stimulate the use of alternative fuels, thereby providing an incentive for the conservation of petroleum.

Dependent Care Assistance Credit *MCA 15-30-186 and 15-31-131*

Employers are granted a credit for the costs of providing qualifying dependent care assistance to employees. The amount of the credit is 25% of qualifying expenditures, up to a maximum credit of $1,575. Employers are also eligible for a credit equal to 25% of the costs incurred to provide information and referral services to assist employees in obtaining dependent care. This credit may be carried forward for up to five years. This credit provides an incentive for employers to fund dependent care assistance programs, facilitating employment, and providing financial relief to working parents.

Employer Disability Insurance Credit *MCA 15-30-129 and 15-31-132*

Employers who have been in business in Montana for at least 12 months, and employ 20 or fewer employees working at least 20 hours a week, may claim a *nonrefundable* credit of up to $3,000 for expenditures on employee disability insurance premiums. To qualify for the credit, at least 50% of each employee’s insurance premium must be paid by the employer. The credit may not exceed 50% of the premium cost for each employee, and may not be claimed for a period of more than 3 years. The credit may not be carried back or carried forward. The purpose of this credit is to encourage disability insurance coverage for uninsured employees.

Infrastructure User Fee Credit *MCA 17-6-316*

The Board of Investments may make loans to local governments for the purpose of building infrastructure to enhance economic development and create jobs if the loan results in creation or expansion of 50 full time jobs. The local government may than charge the new business a user fee for use of the infrastructure. Businesses are allowed to take a tax credit equal to the user fee charged. This credit provides an incentive for local economic development.

Historic Building Preservation Credit *MCA 15-30-180 and 15-31-151*

Taxpayers are allowed a *nonrefundable* credit equal to 25% of the federal credit provided for qualifying rehabilitation expenditures with respect to certified historic buildings. The credit may be carried forward for a period of seven years.

Alternatively, qualifying taxpayers may take a credit equal to 20% of the costs associated with creating a qualifying conservation easement for historic properties, including any loss in value of the property arising as a consequence of the easement. In addition, the owner of a historically significant property subject to a conservation easement is allowed a credit equal to 20% of the direct costs associated with the protection and preservation of the property if the preservation efforts are approved as reasonable and necessary by the conservation easement holder. This credit may not exceed $25,000 per year. The combined maximum credit that may be taken for each historic property may not exceed $150,000. These credits are nonrefundable, but may be carried forward for up to 6 years. These credits provide an incentive to preserve Montana’s heritage and historic culture.

Increased Research Activity Credit *MCA 15-30-168 and 15-31-150*

Taxpayers may receive a *nonrefundable* credit equal to 5% of any increases in qualifying research expenses and basic research expenses for research conducted in Montana, determined in accordance with Section 41 of the IRC, 26, U.S.C. 41. Unused credit may be carried back 2 years and forward 15 years. This credit provides an incentive to produce new research.

Affordable Housing Revolving Loan Account Credit *MCA 15-30-181*
Taxpayers are allowed a nonrefundable credit not to exceed 20% (up to a maximum credit of $10,000) of the amount donated to the affordable housing revolving loan account established in 90-6-133. The credit may not be carried forward or backward; and may not be claimed if the taxpayer has included the full amount of the contribution as a deduction from income, or if the taxpayer has claimed a credit for a contribution to a qualified endowment based on the donation. *This credit terminates December 31, 2004.*

Developmental Disabilities Contribution Credit *MCA 15-30-187*
Taxpayers are allowed a nonrefundable credit in an amount equal to 30% (up to a maximum credit of $10,000) of the amount donated to the developmental disability services account established in 53-20-171. The credit may not be carried forward or backward. Taxpayers claiming this credit may not claim a deduction for the contribution for which the credit is claimed. *This credit terminates January 1, 2006.*

Empowerment Zone New Employees Tax Credit *MCA 15-30-182*
Employers are entitled to a tax credit for each new employee at businesses located in an empowerment zone created pursuant to Title 7, chapter 21, part 37. The taxpayer must receive eligibility certification from the Department of Labor and Industry to receive the credit. The amount of the credit for each employee is $500 in the first year of employment; $1,000 in the second year of employment; and $1,500 in the third year of employment. Portions of the credit in excess of the taxpayer's liability may be carried forward 7 years and carried back 3 years.

Capital Gains Tax Credit *MCA 15-30-183*
Beginning with tax year 2005, taxpayers will be allowed to take a credit against individual income tax liability in an amount equal to 1% of any net positive capital gains income reported on their individual income tax returns. The credit is scheduled to increase to 2% of capital gains income beginning in tax year 2007. This credit is provided to make Montana more competitive with other states as regards the effective tax rate applied to capital gains income, and to provide an incentive for economic development and capital investment in the state.

Individual Income Tax Credits

Credit	FY2006	FY2007	Biennium
Other state/foreign tax credit	$16,785,000	$17,795,000	$34,580,000
Elderly homeowner/renter credit	12,748,000	13,351,000	26,099,000
Charitable endowment credit	4,400,000	5,900,000	10,300,000
Energy conservation credit	3,000,000	4,000,000	7,000,000
Contractor's gross receipts tax credit	785,000	820,000	1,605,000
Alternative energy system credit	330,000	350,000	680,000
Physician credit for rural practice	308,000	300,000	608,000
College contribution credit	160,000	156,000	316,000
Recycling credit	100,000	100,000	200,000
All Other Credits	357,000	367,000	724,000
Total Credits	**$38,973,000**	**$43,139,000**	**$82,112,000**

Corporation License Tax Expenditures - Montana Credits

Contractors' Gross Receipts Tax Credit *MCA 15-50-207*

Contractors are required to pay an additional license fee equal to 1% of the gross receipts from government contracts during the income year for which the license is issued. This additional fee is allowed as a credit against the contractor's corporation license tax liability. This provision of tax law facilitates the taxation of prime and sub-contractors, while protecting the primary contractor from being taxed twice on the same earnings.

Charitable Endowment Credit *MCA 15-31-161 and 15-31-162*

A corporate license tax credit is allowed for 40% of charitable contributions made to qualified endowments. The maximum credit that may be claimed each year is $10,000. The credit may not be carried back or forward and is *nonrefundable*. This credit, which was enacted by the 1997 Legislature, is scheduled to *terminate December 31, 2007*.

Qualified Research Tax Credit *MCA 15-31-150*

Taxpayers may receive a *nonrefundable* tax credit for increases in qualified research expense, and basic research payments for research conducted in Montana, determined in accordance with Section 41 of the IRC, 26, U.S.C. 41. The applicable rate for Montana purposes is 5%. Unused credit may be carried back 2 years and forward 15 years. The credit may not be claimed as a current year credit in tax years beginning after December 31, 2010. This credit provides an incentive to produce new research.

Infrastructure User Fee Credit *MCA 17-6-316*

The Board of Investments may make loans to local governments for the purpose of building infrastructure to enhance economic development and create jobs if the loan results in creation or expansion of 50 full time jobs. The local government may than charge the new business a user fee for use of the infrastructure. Businesses are allowed to take a *nonrefundable* tax credit equal to the user fee charged. The credit may be carried back for 3 years or carried forward for 7 years. This credit provides an incentive for local economic development.

Recycling Credit *MCA 15-32-601 through 15-32-611*

Qualifying taxpayers may claim a credit for investments in depreciable property used to collect or process "reclaimable material", or to manufacture a product from reclaimed material, in the year in which the property is purchased. The amount of the credit is 25% of the first $250,000 invested ; 15%% of the next $250,000 invested; and 5% of the next $500,000 invested. The credit may not be carried forward. The purpose of this credit is to provide an incentive to accumulate and process reclaimable materials, reduce the burden on local landfills, and to enhance the quality of the environment.

Alternative Fuel Motor Vehicle Conversion Credit *MCA 15-31-137*

Qualifying taxpayers (small business corporations and partnerships) may receive a *nonrefundable* tax credit of up to 50% of the equipment and labor costs incurred to convert a motor vehicle to operate on alternative fuel (natural gas, liquefied natural gas, hydrogen, electricity, etc.). The credit may not exceed $500 for converting vehicles with gross vehicle weight of 10,000 pounds or less; and $1,000 for vehicles weighing over 10,000 pounds. The credit is allowed only in the year of conversion (no carryback or carryforward). The purpose of this credit is to stimulate the use of alternative fuels, thereby providing an incentive for the conservation of petroleum.

College Contribution Credit *MCA 15-30-163*

Taxpayers may claim a *nonrefundable* credit equal to 10% of the amount of contributions to the general endowment funds of the Montana University System foundations, or to the general endowment fund of a Montana private college or its foundation. The maximum credit that can be claimed is $500. The credit may not be carried forward or backward. This credit provides an incentive to provide funding for Montana colleges and universities.

Employer Disability Insurance Credit *MCA 15-31-132*

Employers who have been in business in Montana for at least 12 months, and employ 20 or fewer employees working at least 20 hours a week, may claim a *nonrefundable* credit of up to $3,000 for expenditures on employee disability insurance premiums. To qualify for the credit, at least 50% of each employee's insurance premium must be paid by the employer. The credit may not exceed 50% of the premium cost for each employee, and may not be claimed for a period of more than 3 years. The credit may not be carried back or carried forward. The purpose of this credit is to encourage disability insurance coverage for uninsured employees.

Dependent Care Assistance Credit *MCA 15-31-131*

Employers are granted a credit for the costs of providing qualifying dependent care assistance to employees if the assistance is furnished by a registered or licensed day-care provided. The amount of the credit is 25% of qualifying expenditures, up to a maximum credit of $1,575 per employee. Employers are also eligible for a credit equal to 25% of the costs incurred to provide information and referral services to assist employees in obtaining dependent care. This credit may be carried forward for up to five years. This credit provides an incentive for employers to fund dependent care assistance programs, facilitating employment, and providing financial relief to working parents.

Historic Building Preservation Credit *MCA 15-31-151*

Corporations are allowed a nonrefundable tax credit equal to 25% of the credit allowed under 26 U.S.C. 47(a)(2) for qualified rehabilitation expenditures, with respect to any certified historic building located in Montana. Unused tax credit from any given year may be carried over for a period 7 years. This credit provides an incentive to preserve Montana's heritage and historic culture.

Montana Capital Company Credit *MCA 90-8-202*

Corporations are allowed an income tax credit for investing in certified Montana capital companies. The credit is limited to 50% of the investment up to $150,000 per taxpayer for regular capital companies, and up to an additional $250,000 for qualified investments in a Montana *small business* investment capital company. This credit, which may be carried forward for up to 18 years, was available only to taxpayers who invested in a qualified Montana capital company within four years of July 1, 1987 or a qualified small business investment company within four years of July 1, 1991. Current credit amounts claimed reflect carryforward provisions of this credit. This credit provides an incentive to encourage the formation of venture and equity capital in Montana.

Investment Tax Credit *MCA 15-31-123*

Montana allows an investment credit equal to 5% of the federal investment credit up to a maximum of $500 in any given taxable year. The federal Tax Reform Act of 1986 repealed the federal investment credit. Consequently, the current tax expenditures associated with this credit reflect the carry forward amounts

allowed under current law. Investment credit provisions are designed to stimulate investment and economic growth.

Mineral Exploration Credit *MCA 15-32-501 through 510*
Taxpayers are allowed a credit not to exceed 50% of the taxpayer's liability for certified mineral exploration expenditures made to determine the existence, location, extent, or quality of a mineral or coal deposit. This credit provides an incentive to conduct mineral exploration activities in Montana.

Affordable Housing Revolving Loan Account Credit *MCA 15-31-170*
Small business corporations, partnerships, or limited liability companies are allowed a *nonrefundable* credit not to exceed 20% (up to a maximum credit of $10,000) of the amount donated to the affordable housing revolving loan account established in MCA, 90-6-133. The credit may not be carried forward or backward, and may not be claimed if the taxpayer has included the full amount of the contribution as a deduction from income, or if the taxpayer has claimed a credit for a contribution to a qualified endowment based on the donation. *This credit terminates December 31, 2004.*

Developmental Disabilities Contribution Credit *MCA 15-30-187*
Taxpayers are allowed a *nonrefundable* credit in an amount equal to 30% (up to a maximum credit of $10,000) of the amount donated to the developmental disability services account established in 53-20-171. The credit may not be carried forward or backward. Taxpayers claiming this credit may not claim a deduction for the contribution for which the credit is claimed. *This credit terminates January 1, 2006.*

Empowerment Zone New Employees Tax Credit *MCA 15-30-182*
Employers are entitled to a tax credit for each new employee at businesses located in an empowerment zone created pursuant to Title 7, chapter 21, part 37. The taxpayer must receive eligibility certification from the Department of Labor and Industry to receive the credit. The amount of the credit for each employee is $500 in the first year of employment; $1,000 in the second year of employment; and $1,500 in the third year of employment. Portions of the credit in excess of the taxpayer's liability may be carried forward 7 years and carried back 3 years.

Alternative Energy Generation Credit *MCA 15-32-401 through 407*
Qualifying individuals, corporations, partnerships, or small business corporations that invest $5,000 or more in a "net metering system" located in Montana that generates energy by means of an alternative renewable energy source (including commercial wind generation systems) are entitled to a tax credit equal to 35% of the eligible costs. Eligible costs, including expenditures for generating equipment, safety devices, or transmission lines, must be reduced by the amount of any grants provided by the state or federal government for the system. Except for statutorily exempt investments on Indian reservations or state lands, if the investment receives federal wind-generation credits, the state credit must be reduced by the amount of any federal credit such that the effective credit does not exceed 60% of the eligible costs (this section repealed July 1, 2005). Generally, this credit may be carried forward for a period of seven years. This credit encourages the development of alternative energy industries in Montana, and promotes conservation of fossil fuels.

Day Care Facilities Tax Credit *MCA 15-31-133*
Qualifying taxpayers are allowed a *nonrefundable* credit based on the amounts paid or incurred by an employer to acquire, construct, reconstruct, renovate, or otherwise improve real property for use primarily

as a day care facility. The credit is equal to the lesser of: 1) $2,500 times the number of dependents that the day care is designed to accommodate; 2) 15% of the cost of the acquisition, construction, reconstruction, renovation, or other improvement; or 3) $50,000. The taxpayer is allowed a credit equal to one-tenth of the total credit allowed in the first qualifying tax year, and one-tenth is allowed in each succeeding tax year, not to exceed 9 tax years. Credits may be carried forward within the ten-year period.

New/Expanded Industry Credit *MCA 15-31-125*

New or expanding manufacturing industries are allowed a tax credit equal to 1% of the total new wages paid in Montana, for the first three years of operation or expansion. Expanding operations must increase total full-time jobs by 30% or more. “New” industry means a corporation engaging in manufacturing for the first time in Montana. This provides an incentive for economic development and job creation.

Interest Differential Credit *MCA 15-32-107*

Public utilities or financial institutions making low-interest loans for qualifying conservation investments or made certain qualifying installations prior to July 1, 1995 are entitled to a credit equal to the difference in the interest received on the low-interest loan and the interest that would have been received at the prevailing interest rate for home improvement loans. The credit could not exceed $750,000 in any single tax year; and a financial institution could not receive a credit greater than $2,000 in any tax year.

Corporation License Tax Credits

Credit	FY2006	FY2007	Biennium
Contractor's Gross Receipts Tax Credit	$970,000	$970,000	$1,940,000
Charitable Endowments Tax Credit	508,000	508,000	1,016,000
Credit for Increasing Research Activities	270,000	270,000	540,000
Infrastructure Users Fee Credit	158,000	158,000	316,000
Montana Recycling Credit	117,000	117,000	234,000
All Other Credits	50,000	50,000	100,000
Total Credits	**$2,073,000**	**$2,073,000**	**$4,146,000**

Natural Resource Tax Expenditures

Oil and Gas Production

Reduced Rates for "New" Oil and Gas Production *MCA 15-36-304*

Oil or gas from a well that qualifies as "new" production is taxed at a reduced rate of 0.76% (instead of 12.76% for oil and 15.06% for gas). This reduced rate applies for the first 12 months of production from a conventional well and the first 18 months of production from a horizontally completed well. New production includes production from new wells and from wells that have not produced oil or gas during the previous 60 months. This reduced rate provides an incentive for the exploration, development and production of oil and gas.

Reduced Rate for Oil and Gas Wells Completed After 1/1/1999 *MCA 15-36-304*

Oil and gas production from wells completed on or after 1/1/1999 is taxed at a reduced rate of 9.26% (instead of 12.76% for oil and 15.06% for gas). This reduced rate provides an incentive for the exploration, development, and production of oil and gas.

Reduced Rates for Incremental Oil Production from Enhanced Recovery Projects *MCA 15-36-304*

In any quarter when the average price of West Texas Intermediate crude oil is less than $30 per barrel, incremental production from secondary recovery projects is taxed at 8.76% (instead of 12.26%). Incremental production from tertiary recovery projects is taxed at 6.06% (instead of 12.76%). The first 18 months of production from a horizontally recompleted well is taxed at 5.76% (instead of 12.76%). These reduced rates provide incentives for the use of enhanced recovery technologies.

Reduced Rates for Stripper Oil Wells *MCA 15-36-304*

In any quarter when the average price of West Texas Intermediate crude oil is less than $30 per barrel, oil from a well that produces less than three barrels per day is taxed at 0.76% (instead of 12.76%). For a well that produces between 3 and 15 barrels per day, the first 10 barrels per day is taxed at 5.76% and remaining production is taxed at 9.26% (instead of 12.76%) as long as the price of West Texas Intermediate crude oil is less than $38 per barrel for the quarter. These reduced rates provide an incentive to keep low-volume wells in production.

Reduced Rate for Horizontally Completed Gas Wells *MCA 15-36-304*

After the first 18 months of production, production from a horizontally completed gas well is taxed at 9.26% (instead of 15.06%). This reduced rate provides an incentive to use horizontal drilling technology.

Reduced Rate for Stripper Gas Wells *MCA 15-36-304*

Gas wells that were completed before 1/1/1999 and produce less than 60 mcf per day are taxed at 11.26% (instead of 15.06%). This reduced rate provides an incentive to keep low-volume wells in production.

Oil and natural gas prices and production are forecast to remain high through FY06 and FY07. This results in generally higher oil and gas production tax expenditures during the 2006-2007 biennium. However, since oil prices are expected to remain above $38 per barrel through the biennium, no tax expenditures are projected for stripper oil wells and incremental oil production.

Oil and Natural Gas Production Tax Expenditures

Oil	FY2006	FY2007	Biennium
New Production Reduced Rates	$27,663,000	$25,902,000	$53,565,000
Incremental Production Reduced Rates	0	0	0
Post-99 Reduced Rates	13,890,000	17,222,000	31,112,000
Stripper Well Reduced Rates	0	0	0
Total	**$41,553,000**	**$43,124,000**	**$84,677,000**

Natural Gas	FY2004	FY2005	Biennium
New Production Reduced Rates	$14,293,000	$12,947,000	$27,240,000
Stripper Well Reduced Rates	13,518,000	14,744,000	28,262,000
Post-99 Reduced Rates	2,386,000	1,828,000	4,214,000
Total	**$30,197,000**	**$29,519,000**	**$59,716,000**

Other Natural Resource Tax Expenditures

Coal Severance Tax Exemption *MCA 15-35-103 (5)*

Coal producers who mine less than 50,000 tons of coal per year are exempt from severance taxes. If production exceeds 50,000 tons, then only the first 20,000 tons (5,000 tons per quarter) are exempt from severance tax. This exemption grants economic relief to small producers.

Metal Mines License Tax Exemption *MCA 15-37-103*

The first $250,000 of production subject to the metal mines license tax is exempt from taxation. This exemption for production below $250,000 in value represents a tax expenditure. This provides economic assistance to small producers of metals and precious/semi-precious stones, and provides an incentive to produce from small mining claims.

Other Natural Resource Tax Expenditures

Expenditure	FY2006	FY2007	Biennium
Coal Severance Tax Exemptions	$92,700	$92,000	$ 184,700
Metal Mines License Tax Exemption	$27,000	$27,000	$ 54,000
Total	**$ 119,700**	**$ 119,000**	**$ 238,700**

Property Tax Expenditures

In Montana, the property tax is the primary source of funding for local governments. For any given piece of property, the taxable value (tax base) equals the market value of the property (less any homestead exemption) multiplied by the applicable taxable value rate.

Property tax liability equals the taxable value multiplied by the appropriate mill levy in effect for the property. Mills are levied by the state, counties, cities and towns, and school districts. Certain property may be subject to additional mills for special districts (such as water, sewer, and lighting).

Property tax expenditures arise because of certain property being exempt from tax or receiving preferential rate treatment. Generally, preferential rate treatment refers to situations where properties within the same property class are subject to different taxable value rates.

Currently, property may fall into one of 11 classes of property, with taxable value percentages for non-exempt classes ranging from 0.35 percent to 100 percent. A listing of these property classes and their taxable values can be found in the property tax section of this report.

MCA 15-6-201 and following sections, detail those properties that are exempt from tax. Many types of property are exempt, including government property, household goods and furniture, church property, property of certain fraternal organizations and societies, business inventories, certain agricultural commodities, and down-hole equipment in oil and gas wells.

Most of these exemptions constitute tax expenditures. However, placing an accurate value on the expenditures associated with these properties is not possible unless the property is appraised. Unfortunately, property not subject to tax is rarely, if ever, appraised. Therefore, tax expenditures associated with most exempt property are not reported here.

Property Tax Assistance Program *MCA 15-6-134*

Montana property tax statutes provide for a partial abatement, based on total income, which reduces the taxable valuation rate applied to residential real property for low-income homeowners. The base year (1995) income ranges are established in statute and are updated each year for inflation. Using 2004 adjusted income ranges, the 2004 taxable value rates are reduced according to a three-bracket schedule for single households with income less than $17,670, and married-couple households with income less than $23,580.

The reduced taxable value rate applies to the first $100,000 of the market value (less homestead exemption) of residential land and improvements, including mobile or manufactured homes used as residences.

Extended Property Tax Assistance Program (EPTAP) *MCA 15-6-193*

The extended property tax assistance program was enacted to provide property tax relief to qualifying homeowners beginning in tax year 2003. The benefits of the program are specific to residential properties that experienced extraordinary valuation increases due to the reappraisal.

Eligible residential properties are those with an increase in taxable value of at least 24%, a tax liability increase of $250 or more, and the property owner's income is below $75,000. Under the income requirements set in the bill, the following taxable value caps apply:

- If eligible residence's household income is $25,000 or less per year, the taxable value increase is capped at 24% over six years.
- If eligible residence's household income is greater than $25,000 but less than $50,000 per year, the taxablevalue increase is capped at 30% over six years.
- If eligible residence's household income is greater than $50,000 but less than $75,000 per year, the taxable value increase is capped at 36% over six years.

Reduced Rate for "New" or "Expanding" Commercial, Industrial, or Golf Property (Local Option) *MCA 15-24-1401*

After approval by separate resolution for each project, local governments may reduce taxable valuations (tax base) of "new" or "expanding" industries 50% in each of the first five years following the issuance of a construction permit. After that time, the taxable valuation rises in equal increments each succeeding year until full valuation is reached in the 10th year. This incentive does not apply to mills levied by the state.

"Expansion" means that the industry has added at least $50,000 worth of qualifying improvements or modernized process. "New" means that the industry is new to the jurisdiction and has added at least $125,000 worth of qualifying improvements or modernized processes to the jurisdiction. There are no limits on the types of industry which may qualify for this incentive. This reduced rate provides an economic incentive for the development of new industry in Montana.

Reduced Rate for Remodeling or Rebuilding of Structures (Local Option) *MCA 15-24-1501*

Remodeling, reconstruction, or expansion of existing buildings or structures that increases their taxable value by at least 2.5% may receive a reduced tax rate for five years following construction, through local government approval by separate resolution for each project. This incentive does not apply to mills levied by the state.

Tax rates are set at zero during construction, at 20% of normal during the first year following construction, then increased by 20% in each succeeding year until full valuation is reached in the fifth year following the completion of construction. All existing buildings and structures may apply for this benefit. This abatement provides an incentive to add long-term taxable valuation to local jurisdictions, while allowing the property owner to phase-in the increased tax liability.

Property Tax Expenditure Impact Estimate

Expenditure	FY2006	FY2006	Biennium
Property Tax Assistance Program	$2,363,450	$2,363,450	$4,726,901
Extended Property Tax Assistance Program	183,008	183,008	366,016
New & Expanding Industrial Property	1,659,880	1,659,880	3,319,761
Remodeling or Rebuilding	127,742	127,742	255,483
Total	**$4,334,080**	**$4,334,080**	**$8,668,161**

Appendix A

Individual Income Tax Expenditure Items - By Income Bracket

House Bill 387 (1987), the legislation authorizing the Department of Revenue to produce a tax expenditure report, specifically required that tax expenditures must be related to the income of taxpayers, whenever such information is available.

This information is available for specific individual income tax expenditure items that are captured on department computer files. Specifically, tax expenditures by income bracket are available for Montana-specific reductions to income, and itemized deductions.

Totals for the tax expenditures in Appendix A are for full-year residents only, whereas the expenditures in the main body of this report include out-of-state and part-year residents as well.

The following tables show the distributions of tax expenditures across income brackets that represent decile groupings. Each decile group includes one-tenth of all households filing income tax returns. The first decile group includes households with the very lowest incomes, while the tenth decile group includes households having the highest incomes.

The decile groupings are based on actual 2003 incomes, but the tax expenditures are those projected to calendar year 2005. The decile groupings and their associated total income brackets for 2003 are as follows:

Calendar Year 2003
Decile Group Brackets

Decile Group	Income Bracket		
1	$0	-	$4,481
2	$4,482	-	$8,734
3	$8,735	-	$13,416
4	$13,417	-	$18,455
5	$18,456	-	$24,624
6	$24,625	-	$32,715
7	$32,716	-	$43,299
8	$43,300	-	$57,212
9	$57,213	-	$78,454
10	$78,455	+	

Tax Expenditures Associated with Reductions to Income

Full-Year Residents, Tax Year 2005

IRAs, Keoghs, Self-Emp. Deduction / Farm Risk Management Account

Decile Group	# of hslds	Tax Expenditure	Percent	# of hslds	Tax Expenditure	Percent
1	125	2,141	0.01%	0	3	0.16%
2	2,266	66,522	0.36%	0	0	0.00%
3	4,350	188,933	1.01%	1	36	1.96%
4	5,575	342,627	1.83%	1	17	0.92%
5	7,648	668,861	3.58%	2	300	16.32%
6	10,020	1,142,590	6.12%	2	37	2.01%
7	11,761	1,744,964	9.34%	4	264	14.36%
8	13,159	2,267,236	12.14%	1	27	1.47%
9	13,894	2,841,823	15.22%	5	373	20.29%
10	17,592	9,408,148	50.38%	9	781	42.49%
Total	86,390	18,673,845	100.00%	25	1,838	100.00%

Elderly Interest Exclusion / Exempt Retirement Income

Decile Group	# of hslds	Tax Expenditure	Percent	# of hslds	Tax Expenditure	Percent
1	0	3	0.00%	39	479	0.01%
2	255	2,941	0.25%	1,421	34,922	0.79%
3	1,140	15,925	1.34%	3,590	183,473	4.13%
4	2,171	41,417	3.49%	4,848	420,496	9.46%
5	2,822	77,569	6.53%	5,646	755,478	17.00%
6	3,370	130,648	11.01%	6,018	1,092,940	24.60%
7	3,602	176,870	14.90%	2,550	560,923	12.62%
8	3,510	188,686	15.90%	2,447	594,793	13.39%
9	3,750	227,525	19.17%	2,496	535,572	12.05%
10	4,629	325,419	27.42%	1,181	264,612	5.95%
Total	25,249	1,187,003	100.00%	30,236	4,443,688	100.00%

Unemployment Compensation / Medical Savings Account

Decile Group	# of hslds	Tax Expenditure	Percent	# of hslds	Tax Expenditure	Percent
1	45	491	0.00%	0	0	0.00%
2	823	19,150	0.00%	9	297	0.04%
3	2,223	99,294	0.00%	40	2,216	0.27%
4	2,982	225,568	0.00%	80	4,972	0.60%
5	3,498	372,464	0.01%	165	17,722	2.13%
6	3,964	491,344	0.01%	329	48,224	5.81%
7	4,127	561,783	18.64%	485	83,566	10.06%
8	3,789	548,317	18.20%	610	121,330	14.61%
9	2,882	445,209	14.77%	849	182,203	21.94%
10	1,406	249,642	8.28%	1,321	369,974	44.55%
Total	25,739	3,013,262	100.00%	3,888	830,504	100.00%

Tax Expenditures Associated with Reductions to Income

Full-Year Residents, Tax Year 2005

Family Education Savings Account

Decile Group	# of hslds	Tax Expenditure	Percent
1	0	0	0.00%
2	5	154	0.03%
3	2	65	0.01%
4	6	516	0.09%
5	12	590	0.11%
6	42	4,764	0.86%
7	81	14,249	2.57%
8	190	38,805	7.01%
9	345	84,288	15.22%
10	1,095	410,256	74.10%
Total	1,778	553,687	100.00%

First-Time Homebuyers Savings Account

Decile Group	# of hslds	Tax Expenditure	Percent
1	0	0	0.00%
2	4	146	0.17%
3	3	242	0.29%
4	12	1,379	1.65%
5	22	3,282	3.93%
6	46	9,480	11.34%
7	59	16,275	19.47%
8	70	22,051	26.38%
9	54	19,224	22.99%
10	32	11,525	13.79%
Total	302	83,604	100.00%

Health Care Professional Loan Payment

Decile Group	# of hslds	Tax Expenditure	Percent
1	0	0	0.00%
2	0	0	0.00%
3	0	0	0.00%
4	3	170	0.52%
5	2	108	0.33%
6	4	259	0.79%
7	17	2,895	8.85%
8	17	3,589	10.97%
9	25	4,706	14.39%
10	58	20,986	64.15%
Total	126	32,713	100.00%

Other Reductions

Decile Group	# of hslds	Tax Expenditure	Percent
1	178	2,223	0.01%
2	1,599	53,668	0.23%
3	2,780	231,164	1.00%
4	3,502	539,954	2.33%
5	5,713	998,109	4.30%
6	10,554	1,735,919	7.48%
7	14,248	2,413,275	10.40%
8	17,966	3,480,404	15.00%
9	22,054	5,237,437	22.57%
10	23,453	8,509,784	36.68%
Total	102,047	23,201,937	100.00%

Tax Expenditures Associated with Itemized Deductions

Full-Year Residents, Tax Year 2005

Decile Group	Medical Insurance Premiums: # of hslds	Medical Insurance Premiums: Tax Expenditure	Medical Insurance Premiums: Percent	Medical Deductions: # of hslds	Medical Deductions: Tax Expenditure	Medical Deductions: Percent
1	20	297	0.00%	25	487	0.01%
2	551	9,759	0.10%	502	9,385	0.10%
3	2,517	65,794	0.66%	2,047	60,122	0.67%
4	4,730	231,900	2.31%	3,782	201,229	2.25%
5	6,512	530,337	5.28%	5,164	431,757	4.82%
6	7,939	994,508	9.91%	6,354	832,561	9.30%
7	9,289	1,530,734	15.25%	7,680	1,376,760	15.38%
8	10,678	1,952,386	19.45%	9,257	1,781,320	19.90%
9	11,076	2,268,532	22.60%	9,387	2,014,639	22.50%
10	10,467	2,454,268	24.45%	7,028	2,245,154	25.08%
Total	63,779	10,038,515	100.00%	51,226	8,953,414	100.00%

Decile Group	Long Term Care Insurance: # of hslds	Long Term Care Insurance: Tax Expenditure	Long Term Care Insurance: Percent	Federal Income Taxes Paid: # of hslds	Federal Income Taxes Paid: Tax Expenditure	Federal Income Taxes Paid: Percent
1	0	0	0.00%	6	160	0.00%
2	15	201	0.03%	103	710	0.00%
3	132	2,411	0.31%	932	9,436	0.03%
4	332	11,903	1.55%	3,246	58,298	0.20%
5	540	27,995	3.64%	7,102	294,140	1.00%
6	766	65,692	8.54%	13,094	1,028,066	3.49%
7	936	106,170	13.80%	21,228	2,685,277	9.11%
8	1,068	140,188	18.22%	27,431	5,383,986	18.27%
9	1,265	177,378	23.05%	32,490	9,477,308	32.15%
10	1,510	237,599	30.88%	33,146	10,539,394	35.75%
Total	6,564	769,537	100.00%	138,778	29,476,775	100.00%

Decile Group	Property Taxes Paid: # of hslds	Property Taxes Paid: Tax Expenditure	Property Taxes Paid: Percent	Motor Vehicle / Other Taxes: # of hslds	Motor Vehicle / Other Taxes: Tax Expenditure	Motor Vehicle / Other Taxes: Percent
1	15	229	0.00%	2	12	0.00%
2	420	4,667	0.03%	87	584	0.02%
3	2,273	40,106	0.24%	655	4,412	0.18%
4	5,243	150,269	0.90%	2,079	17,169	0.71%
5	9,235	439,904	2.62%	4,826	53,716	2.23%
6	14,570	1,006,413	6.00%	8,930	128,488	5.33%
7	20,848	1,812,229	10.80%	13,975	252,992	10.50%
8	27,412	2,815,046	16.78%	19,019	423,954	17.59%
9	32,524	3,967,781	23.65%	23,010	641,279	26.61%
10	35,193	6,543,955	39.00%	24,241	887,169	36.82%
Total	147,733	16,780,599	100.00%	96,824	2,409,775	100.00%

Tax Expenditures Associated with Itemized Deductions

Full-Year Residents, Tax Year 2005

	Home Mortgage Interest			Deductible Investment Interest		
Decile Group	# of hslds	Tax Expenditure	Percent	# of hslds	Tax Expenditure	Percent
1	22	435	0.00%	0	1	0.00%
2	530	14,227	0.03%	5	58	0.00%
3	1,876	108,542	0.20%	31	888	0.06%
4	3,870	409,757	0.77%	64	1,972	0.13%
5	6,972	1,272,253	2.39%	130	6,038	0.40%
6	11,127	3,025,995	5.68%	264	18,767	1.23%
7	16,308	5,647,079	10.61%	425	39,797	2.62%
8	22,418	9,421,142	17.70%	622	72,700	4.78%
9	27,260	13,432,036	25.23%	921	129,677	8.52%
10	28,627	19,908,363	37.39%	2,937	1,251,276	82.26%
Total	119,010	53,239,829	100.00%	5,399	1,521,174	100.00%

	Charitable Contributions			Child Care Deductions		
Decile Group	# of hslds	Tax Expenditure	Percent	# of hslds	Tax Expenditure	Percent
1	14	163	0.00%	1	7	0.03%
2	314	4,099	0.02%	7	128	0.60%
3	1,726	29,369	0.13%	39	594	2.76%
4	4,276	123,250	0.53%	151	5,750	26.76%
5	7,693	353,342	1.53%	153	5,953	27.71%
6	12,548	865,623	3.75%	34	1,477	6.87%
7	18,146	1,667,552	7.23%	30	1,359	6.33%
8	24,102	2,680,172	11.62%	30	1,530	7.12%
9	29,665	4,148,883	17.99%	21	1,540	7.17%
10	34,064	13,184,229	57.18%	17	3,148	14.65%
Total	132,548	23,056,682	100.00%	483	21,486	100.00%

	Casualty and Theft Losses			Miscellaneous Deductions		
Decile Group	# of hslds	Tax Expenditure	Percent	# of hslds	Tax Expenditure	Percent
1	1	8	0.01%	5	104	0.00%
2	2	103	0.08%	103	2,447	0.04%
3	6	213	0.17%	310	13,315	0.22%
4	20	2,244	1.79%	698	40,454	0.67%
5	31	4,746	3.78%	1,430	131,868	2.18%
6	47	12,025	9.58%	2,827	368,007	6.09%
7	38	13,019	10.37%	4,707	818,330	13.55%
8	52	20,090	16.01%	6,398	1,133,837	18.77%
9	44	18,606	14.82%	7,718	1,465,652	24.27%
10	41	54,454	43.39%	7,520	2,065,097	34.20%
Total	282	125,508	100.00%	31,716	6,039,111	100.00%

Tax Expenditures Associated with Itemized Deductions

Full-Year Residents, Tax Year 2005

Gambling Losses

Decile Group	# of hslds	Tax Expenditure	Percent
1	0	0	0.00%
2	1	22	0.01%
3	7	166	0.06%
4	19	830	0.31%
5	23	1,969	0.74%
6	48	5,992	2.25%
7	94	15,761	5.92%
8	105	27,994	10.52%
9	116	33,250	12.49%
10	336	180,178	67.69%
Total	749	266,162	100.00%

Appendix B

Impact of Federal (Passive) Individual Income Tax Expenditures

	Thousands of Dollars		
Exclusions from Federal Income	**FY2006**	**FY2007**	**Biennium**
Employer Contributions for Health Care, Health Ins Premiums, and L-T Care Ins Premiums	$70,109	$76,648	$146,756
Pension Contributions and Earnings - Employer Plans	60,936	63,969	124,905
Capital Gains at Death	23,330	24,913	48,243
Untaxed Medicare Benefits	21,096	21,925	43,021
Investment Income on Life Insurance and Annuity Contracts	15,297	15,696	30,993
Pension Contributions and Earnings - Individual Retirement Plans and Keogh Plans	15,193	15,622	30,816
Untaxed Social Security and Railroad Retirement Benefits	15,105	15,652	30,757
Benefits Provided under Cafeteria Plans	11,377	12,072	23,448
Capital Gains on Sales of Principal Residences	10,785	10,918	21,703
Worker's Compensation Benefits (Medical Benefits) and (Disability and Survivors Payments)	5,296	5,548	10,844
Miscellaneous Fringe Benefits	3,536	3,639	7,175
Income Earned Abroad by U.S. Citizens	2,219	2,337	4,557
Employer-Paid Transportation Benefits	2,249	2,293	4,542
Veterans' Benefits and Services	2,175	2,234	4,409
Income Earned by Voluntary Employees' Beneficiary Associations	2,056	2,160	4,216
Cash Public Assistance Benefits	2,042	2,116	4,157
Benefits and Allowances to Armed Forces Personnel	1,657	1,701	3,358
Employee Benefits - Premiums on Accident and Disability Insurance	1,568	1,642	3,210
Employee Benefits - Premiums on Group Term Life Insurance	1,524	1,583	3,107
Medical Care and CHAMPUS/TRICARE Medical Ins	1,065	1,065	2,130
Scholarship and Fellowship Income	932	947	1,879
Damages on Account of Personal Physical Injuries or Physical Sickness	828	873	1,701
Employer-Provided Child Care	533	577	1,110
Employee Meals and Lodging (Other Than Military)	533	533	1,065
Employer-Provided Education Assistance Benefits	518	533	1,050
Certain Foster Care Payments	414	459	873
Earnings of Qualified Tuition Programs	399	459	858
Housing Allowances for Ministers	296	296	592
Spread of Stock under Incentive Stock Option Plans and Employee Stock Purchase Plans	237	237	473
Earnings of Trust Accounts for Education ("Coverdell Accounts")	222	237	459
Special Tax Provisions for Employee Stock Ownership Plans (ESOPs)	178	178	355
Other Exclusions from Federal Income	130	130	260
Employee Awards	104	118	222
Military Disability Benefits	59	59	118
Expensing of Fertilizer and Soil Conditioner Costs	59	59	118
Special Benefits for Disabled Coal Miners	59	59	118
Total	$274,115	$289,485	$563,600

Impact of Federal (Passive) Individual Income Tax Expenditures

	Thousands of Dollars		
Deductions from Federal Income	**FY2006**	**FY2007**	**Biennium**
Depreciation in Excess of Alternative Depreciation System	$7,530	$8,906	$16,436
Other Deductions from Federal Income	5,576	5,162	10,738
Carryover Basis of Capital Gains on Gifts	2,855	3,033	5,888
Interest on Student Loans	473	518	991
Higher Education Expenses	740	104	843
Amortization of Business Startup Costs	355	355	710
Deferral of Gain on Like-Kind Exchanges	296	296	592
Deferral of Gain on Non-Dealer Installment Sales	296	296	592
Cash Accounting for Agriculture	178	178	355
Permanent Exemption from Imputed Interest Rules	178	178	355
Cash Accounting, Other Than Agriculture	178	178	355
Expensing of Depreciable Business Property	0	0	0
Total	$18,654	$19,201	$37,855

Impact of Federal (Passive) Corporation License Tax Expenditures

	Thousands of Dollars		
Exclusions from Gross Income	**FY2006**	**FY2007**	**Biennium**
Extraterritorial Income	$2,719	$2,862	$5,580
Deferral Active Income of Controlled Foreign Corporations	2,337	2,432	4,769
Investment Income on Life Insurance and Annuity Contracts	692	715	1,407
Deferral of Gain on Non-Dealer Installment Sales	286	310	596
Deferral of Gain on Like-Kind Exchanges	596	620	1,216
Total	$6,629	$6,939	$13,569

	Thousands of Dollars		
Deductions Towards Federal Adjusted Gross Income	**FY2006**	**FY2007**	**Biennium**
Depreciation in Excess of Alternative Depreciation System	$6,796	$2,742	$9,539
Inventory Property Sales Source Rule Exception	2,790	2,933	5,723
Expensing of Research and Experimental Expenditures	2,599	2,981	5,580
Charitable Contributions	1,884	1,955	3,839
Special Tax Provisions for Employee Stock Ownership Plans (ESOPs)	429	429	858
Expensing of Exploration and Development Costs - Oil, Gas, and Other Fuels	167	215	382
Excess of Percentage Over Cost Depletion - Oil, Gas, and Other Fuels	238	238	477
Expensing of Depreciable Business Property	19	19	38
Expensing of Multiperiod Timber-Growing Costs	95	95	191
Completed Contract Rules	95	95	191
Excess of Percentage Over Cost Depletion - Nonfuel Minerals	238	262	501
Total	$15,353	$11,966	$27,319